# Management Audit of the University of Hawaii Incentive Early Retirement Program (IER)

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 03-06
May 2003

THE AUDITOR
STATE OF HAWAII

## Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.

9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.


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# OVERVIEW

## *Management Audit of the University of Hawaii Incentive Early Retirement Program (IER)*

**Report No. 03-06, May 2003**

## Summary

This is a report of our audit of the University of Hawaii's Incentive Early Retirement Program. This audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which requires the office to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices and agencies of the State and its political subdivisions. The Incentive Early Retirement Program was established at the University of Hawaii in 1983 in order to save personnel costs while retaining experienced staff and creating opportunities for junior faculty. Administrative, professional, and technical personnel as well as faculty are eligible to participate. The Auditor initiated this audit of the program—as it enters its 20th year—to assess whether the program continues to fulfill the purpose for which it was intended.

We found that the incentive early retirement program is a unique university perk that fails to meet its goals and is poorly managed. Specifically, the program has resulted in $132,461 in unnecessary costs for the State by overlapping the State's Early Retirement Incentive Program in 1995, resulting in dual retirement incentives for some employees. In addition, the goal of saving personnel costs through early retirement was subverted by replacing retirees with more highly paid replacements. We found that for 34 retirees who were replaced, 22 or 65 percent of the replacements were paid higher annual salaries. Of these replacements, three were paid at least 50 percent more, and another three were paid double their predecessors' salaries at retirement.

The program also duplicates other potentially less costly part-time work options that are already open to retirees. In fact, the university encourages departments to rehire retirees as casual employees after they reached their maximum three-year IER terms. We found five IER participants whose terms had expired and who were subsequently rehired as lecturer, casual and temporary employees. Their additional terms of temporary employment ranged from eight months to six years.

Furthermore, retired faculty members are now eligible for the highest pay scale for lecturers, based on the number of credits they previously taught. At $1,490 per credit hour, lecturers can make the per-credit equivalent of some associate professors. In light of these part-time options, the continued need for the IER program becomes less evident.

In addition, Social Security regulations have made the incentive program less effective as a means to encourage retirement. Under current rules, those of retirement age can work full-time with no maximum income limits while collecting their retirement benefits. Thus, for those who choose not to retire early for financial reasons, retiring and participating in IER with a part-time salary has become a less attractive option.

In contrast, those contemplating early retirement—i.e. between ages 62 to 65—are penalized for exceeding maximum income limits. For 2003, that limit is $11,520. The benefits of those exceeding this amount are reduced by $1 for every $2 earned above the maximum. In our sample of 76 participants, all but one exceeded the maximum income

limit. Thus, for most early retirees, participation in the IER program would reduce their retirement benefits.

Another anticipated benefit of the program was shifting the university staff's age profile from mature to balanced, as recommended by the American Association of University Professors. However, we found that for tenured faculty and APT employees, the median age and years of service has not changed significantly since 1983. For tenured faculty, the median age went from 49 to 47. For administrative, professional, and technical staff, the median age increased from 40 to 43. Years of service for tenured faculty remained the same at 14 years, and increased from 11 to 13 years for APT employees.

We also found that the program is poorly managed, leaving the university administration unaware of its overall impact. The policies governing the program are vague, which has led to subjective criteria and uneven implementation. For example, we found one IER participant who was paid at 20 percent of the full-time equivalent and given the responsibility of teaching 12 credits plus minor administrative duties. Another participant was paid at 40 percent of the full-time equivalent for vague responsibilities consisting of either teaching only three credits per year or its equivalent in research or advising students.

System-wide cost data is not collected by the administration, but maintained by each department instead. This is consistent with deans' and department heads' delegated management responsibilities according to university officials. However, we contend that the university administration remains accountable for the overall results of this program.

Management is also lax in terms of the quality of the work performed under IER, with no sanctions imposed if the work is unsatisfactory. Thus, many employees view the program as a reward for past work rather than a current contract whose terms must be honored.

## Recommendations and Response

We recommend that the Board of Regents assess the merits of the Incentive Early Retirement Program and consider eliminating it. However, if the board decides to keep the program, we recommend that it require closer review, including: (a) determining what types of information are significant to the success of IER and requiring that all applications include such information (e.g., anticipated cost savings from IER); (b) considering implementing post-IER evaluations to determine whether the outcomes of the program justify its continuation; and (c) monitoring overall costs and assessing whether IER has been effective in meeting its human resource needs.

The university responded that it has already initiated action to address some of our concerns and will review the merits of continuing the program. However, the university did not address any of our findings directly, but did note that it will seek to make positive use of our report.

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Submitted by

**THE AUDITOR**
STATE OF HAWAII

Report No. 03-06
May 2003

# Foreword

This is a report of our audit of the University of Hawaii's Incentive Early Retirement Program. This audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices and agencies of the State and its political subdivisions.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the University of Hawaii.

Marion M. Higa
State Auditor

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# Chapter 1

## Introduction

This is a report of our audit of the University of Hawaii's Incentive Early Retirement Program. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which requires the office to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices and agencies of the State and its political subdivisions.

The Incentive Early Retirement Program was established at the University of Hawaii in 1983 to save personnel costs while retaining experienced staff and creating opportunities for junior faculty. The Auditor initiated this audit of the program to assess whether the program continues to fulfill the purpose for which it was intended.

### Background on the Incentive Early Retirement Program

An incentive early retirement (IER) program is any arrangement based on a mutual understanding and agreement between employee and employer to provide an inducement, in the form of monetary or in-kind reward, for early retirement. Many universities have established such programs to reduce salary expenditures while retaining experienced staff.

A survey published in 1979 noted that 27 of 83 institutions had an incentive early retirement program and another 14 were contemplating one. The University of Hawaii viewed IER as a cost-saving measure in light of reductions to the university's budget and cost-cutting national trends that had led to elimination of programs and deletion of faculty positions in other universities.

#### *History and impetus for the program*

The program was initiated following a 1982 appraisal of the IER concept by an exploratory committee, as reported to the Board of Regents. One of the committee's tasks was to review existing plans at other universities. The program was deemed feasible at the University of Hawaii due to the mature age distribution of its faculty. The committee reported one advantage of an IER program is that when higher-compensated senior academic appointees leave before they are required to do so, their salaries can be used as savings, or their positions can be utilized more flexibly by the institution. Another advantage is the ability to create promotional opportunities for younger staff when older faculty leave.

Initial savings estimates were based on highly paid faculty being replaced by faculty paid at less senior rates. Savings estimates for Administrative Professional Technical (APT) employees were omitted from the study because, unlike faculty, who can be replaced by newer, less expensive hires, APT salaries are classification- and responsibility-based and replacements are generally hired at the same pay range as that of the previous employee.

The exploratory committee's 1982 report warned that any cost savings would depend on whether IER appointees were replaced, and at what pay level. The committee also said that ongoing evaluation should be built into the overall program. Without careful evaluation of the utilization and reallocation of resources, the committee warned, the IER program could result in an expensive exercise.

## *Policies guiding implementation*

The University of Hawaii's Incentive Early Retirement Program was established in March 1983 by the Board of Regents. Section 9-13f, Board of Regents Bylaws and Policies, establishes the program as a guarantee to rehire retired personnel on a part-time basis if the arrangement is mutually agreeable and meets the test of being beneficial to the university. IER appointments were limited to a maximum of three years.

Although the 1982 committee report anticipated savings from reducing the salaries of senior faculty, the program was implemented to include all appointees eligible for retirement, including Executive/Managerial, Administrative Professional Technical (APT), and faculty positions. APT staff were included despite the fact that the replacement staffs' salaries were not likely to generate savings.

The university's policy states that IER participants have the same rights, privileges, and obligations as other faculty and staff, as long as they do not conflict with their retirement status, existing state laws, or university policies. The policy further states that all agreements must (1) have terms that are mutually agreeable; (2) meet the test of being beneficial to the university; (3) not exceed 40 percent full-time equivalent in post-retirement employment; and (4) be contracted for one year at a time for a maximum of three years.

The formal agreement between the university and employee must include a description of the services to be performed by the employee and the rate of compensation. The IER commitment between the university and the employee may be reduced or terminated by mutual agreement.

The IER process begins with negotiations between employees and their college dean (see Exhibit 1.1). The dean submits an application to the department chair, who forwards recommendations to the provost or directly to the chancellor (depending on whether the applicant is in the community colleges). The chancellor forwards the request to the vice president for administration, the Office of Human Resources, and finally to the Office of the President for ultimate approval.

When the program began, final approval for IER agreements was given by the president or his designees, which included university vice presidents, chancellors, Manoa deans and directors. In 1995, following concerns that IER agreements were being approved for three years at a time, the president rescinded chancellors' and deans' authority to approve final agreements. The president then required any IER extension beyond three years to be approved by the Board of Regents. In 1996, the president also expressed concern regarding the number of extensions that had been requested. He said such extensions were inconsistent with the purpose of the IER program and indicated an ongoing need for services, which should be satisfied through other means like establishment of temporary positions, lectureships, etc. He also reiterated that IER appointments were not allowable beyond three years.

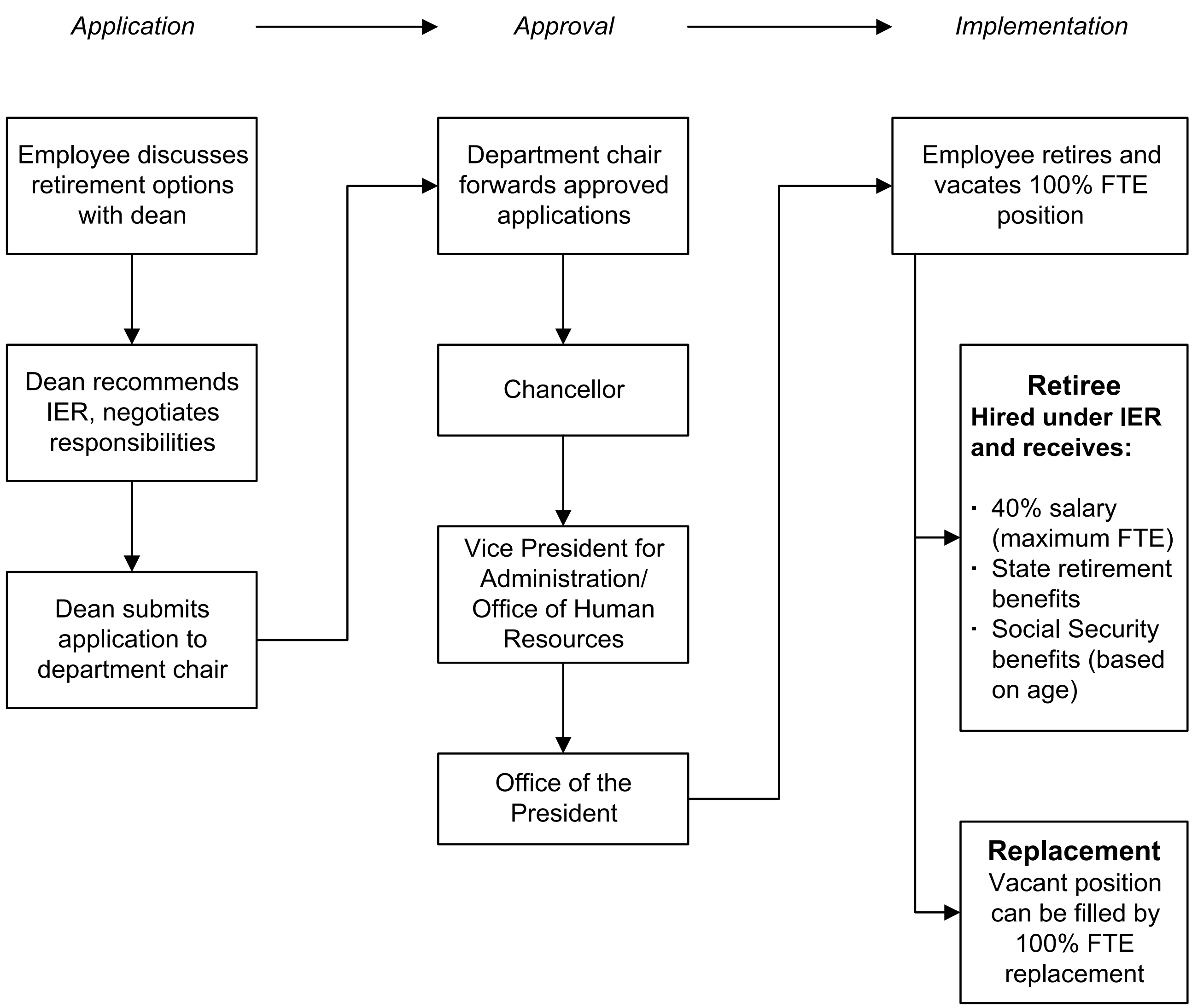
### *Profile of participants*

Personnel records starting from 1995 are contained in the university's personnel database. Payroll information is entered into the database by staff at various campuses. The database contains information such as personal data, position data (including position number and whether the same position number has been filled), employee status (e.g., retired or terminated), personnel actions, and compensation.

One limitation of the database is that it cannot track employees who replaced retired IER participants unless the replacements retained the same position number as the retiree. Thus, the database cannot track a position that has been reallocated, for example, by dividing a full-time position into two part-time positions. In addition, the database does not contain information on IER appointees hired as lecturers, since lecturers are considered temporary employees; nor does it include specific responsibilities described in the memoranda of agreement between the employee and university.

Since 1995, 145 appointees have been hired under the IER program. Exhibit 1.2 shows that by college, 123 participants (85 percent) were employed at UH-Manoa, followed by six at Kapiolani Community College, five at Leeward Community College, and three from the university administration. UH-Hilo and Honolulu and Hawaii Community Colleges have had two participants each, while Kauai and Maui Community Colleges have had one participant each.

**Exhibit 1.1**
**IER Approval Process**




Source: University of Hawaii, Office of Human Resources

Exhibit 1.2 also displays the total cost for IER salaries paid to participants. Between FY1994-95 and FY2001-02, the university paid a total of $7.6 million in IER salaries. Commensurate with the number of participants, the majority of this amount (81 percent) was spent at UH-Manoa ($6.2 million). University administration and the Hawaii Community College paid a higher percent of total cost compared to percentage of participants due to the extension of IER terms beyond the three-year maximum.

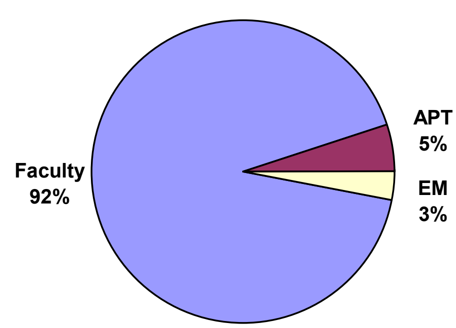
**Exhibit 1.2**
**Number of IER Participants by College**

| Unit/College | No. of Participants | Percent of Participants | Cost | Percent of Total Cost |
|---|---|---|---|---|
| UH-Manoa | 123 | 85% | $6,200,922 | 81.1% |
| Kapiolani CC | 6 | 4% | 279,006 | 3.6% |
| Leeward CC | 5 | 4% | 250,219 | 3.3% |
| Administration | 3 | 2% | 294,783 | 3.9% |
| UH-Hilo | 2 | 1% | 165,672 | 2.2% |
| Honolulu CC | 2 | 1% | 116,472 | 1.5% |
| Hawaii CC | 2 | 1% | 234,076 | 3.1% |
| Kauai CC | 1 | 1% | 23,990 | 0.3% |
| Maui CC | 1 | 1% | 81,014 | 1.1% |
| Total | 145 | 100% | $7,646,154 | 100.0% |

Source: University of Hawaii, Office of Human Resources

Exhibit 1.3 shows that by position type, 92 percent of IER participants were faculty (including instructors, researchers, specialists and librarians), 5 percent were administrative/ professional/technical (APT), and 3 percent were executive/management (EM) staff.

**Exhibit 1.3**
**IER Participants by Position Type**




Source: University of Hawaii, Office of Human Resources

## Objectives of the Audit

1. Assess the efficiency and effectiveness of the management of the Incentive Early Retirement Program.

2. Make recommendations as appropriate.

## Scope and Methodology

The audit covers the period from 1995 to the present. We reviewed management controls related to the university administration's monitoring of the program and the extent to which its original objectives have been achieved.

We reviewed personnel policy documents, interviewed university administrators from each college and collected relevant documentation regarding the application, approval, and monitoring of program participants. We also reviewed IER employee files from the various colleges and compared pre-retirement and post-retirement compensation, along with the costs to replace these retirees.

Our audit was conducted from October 2002 to March 2003 in accordance with generally accepted government auditing standards.

# Chapter 2

## The Incentive Early Retirement Program Is a Unique University Perk That Fails To Meet Its Goals and Is Poorly Managed

The Incentive Early Retirement program at the University of Hawaii was considered as a cost-cutting measure. The program's anticipated outcome was the reduction of highly compensated senior academic appointees and increased opportunities for less expensive junior faculty. Before its implementation, the appraisal report warned that, without careful evaluation of the utilization of resources, the program could result in an expensive exercise. The Board of Regents' Committee on Personnel Relations later expressed a preference for establishing a monitoring system. Twenty years after the program was established, we found that an evaluation system has not been implemented, and that the program's goals have not been met. In addition, the program has been poorly managed, with no information about its impact on the university's resources.

The absence of a similar program open to other state employees, accompanied by the absence of critical evaluation by the university, suggests that the program is a generous perk available only to one class of state employees—those appointed by the Board of Regents.

### Summary of Findings

1. The Incentive Early Retirement program fails to meet its goals.

2. The program is poorly managed, leaving the university's administration unaware of its overall impact.

### The Incentive Early Retirement Program Fails To Meet Its Goals

The major goals of the Incentive Early Retirement (IER) program were to cut personnel costs, increase productivity, and transition eligible employees into retirement. Between FY1994-95 and FY2001-02, the university paid a total of $7.6 million in salaries for 145 IER participants, with no guarantee that actual savings were incurred.

Instead of saving personnel costs, the program has resulted in unnecessary costs by awarding IER benefits to employees who took advantage of the State's one-time incentive retirement bonus, and by replacing retired workers with higher-paid employees. In addition, the program has been used to phase out employees whose productivity had decreased. Furthermore, the program duplicates other, potentially less expensive part-time employment opportunities that are already open to retirees, such as casual hire and lecturer positions. Finally, as a result of changes in Social Security laws removing maximum earnings limits for those of retirement age while retaining the same limits for those planning early retirement, the program has become less effective at encouraging employees to retire. Thus, the incentive program has been costly to the State and unsuccessful at meeting its original goals.

## *The program has resulted in unnecessary costs*

The Incentive Early Retirement program was adopted primarily as a cost-saving measure. However, we found that the program has instead resulted in some unnecessary costs for the university. For example, the State implemented an early retirement incentive program in FY1994-95, which provided a one-time retirement bonus for all eligible state employees, including those at the University of Hawaii. Instead of saving personnel costs, the university allowed certain employees to receive additional compensation by also hiring them under the IER program. In addition, the goal of saving personnel costs by replacing highly paid senior employees with lower paid newer employees has not come to fruition. We found that the majority of replacement employees have been compensated at annual rates higher than their predecessors—more than double, in some cases.

### IER overlapped the State's Early Retirement Incentive Program in 1995, resulting in unnecessary dual incentives for some

In our review of university records, we found that six university employees who would have received additional service credits under the statewide early retirement incentive program in 1995 were also hired under the IER program that same year. While there were no provisions in the State's program that prevented these faculty members from participating, the university system could have saved money by suspending its IER program or refusing to grant IER approvals for that year.

Act 212, Session Laws of Hawaii 1994 provided an early retirement incentive for all state employees in order to (1) reduce employee compensation costs without imposing forced reductions in current staffing; (2) maintain or increase the current level of employee productivity with the same or reduced compensation costs; and (3) increase opportunities for lower and middle-level employees to move upward by filling vacancies created by senior employees who retire. This incentive provided a one-time bonus of two additional years of service credits, provided that university employees retired on June 30,

1995. Employees' total years of credited service was multiplied by 1.25 percent for those in the noncontributory plan and 2 percent for those in the contributory plan; and by the average of the three highest years' salary to determine the pension amount. Thus, the State's program offered a lifetime increase in retirement benefits.

Since the State's incentive program was designed to address the same goals as those of the university's Incentive Early Retirement program and had already provided compensation for potential retirees, the university administration could have alerted its departments to suspend the IER program for one year. Instead, four employees from the University of Hawaii at Manoa and two from the community colleges were paid a total of $132,461 under IER for FY1995-96 in addition to the State's pension increase received through the additional service credits.

### Replacement employees' salaries cost more than retirees' original salaries

In 1982, a report to the Board of Regents noted one advantage of IER would be that more highly compensated senior academic appointees would leave before they were required to do so, allowing new, lower-priced faculty and staff to be hired. However, we found that the annual salaries of replacement employees were higher overall than their retired predecessors'.

Out of 76 IER participants whose files we reviewed, 34 were replaced with new staff. Of the 34, 22 were replaced with higher-paid employees, three of whom were paid at least 50 percent more, and another three were paid double their predecessors' annual salaries at retirement (see Exhibit 2.1). As a result, higher-paid replacements' salaries were 47 percent higher than the salaries earned by their predecessors. While mandated salary increases might have augmented rates for some positions, our review shows that in general, salary costs were not significantly reduced by the replacement employees.

**Exhibit 2.1**
**Differences in Salary Between Retirees and Higher-Paid Replacements**

| Employee | Retirees' Salary | Replacements' Salary | Difference | Percent Difference |
|---|---|---|---|---|
| 1 | $109,056 | $256,344 | $147,288 | 135% |
| 2 | 55,404 | 116,964 | 61,560 | 111% |
| 3 | 46,776 | 94,164 | 47,388 | 101% |
| 4 | 51,264 | 101,688 | 50,424 | 98% |
| 5 | 49,296 | 87,528 | 38,232 | 78% |
| 6 | 69,255 | 118,860 | 49,605 | 72% |
| 7 | 74,664 | 110,352 | 35,688 | 48% |
| 8 | 53,316 | 77,988 | 24,672 | 46% |
| 9 | 75,888 | 110,460 | 34,572 | 46% |
| 10 | 127,296 | 185,016 | 57,720 | 45% |
| 11 | 59,976 | 82,180 | 22,204 | 37% |
| 12 | 59,976 | 81,048 | 21,072 | 35% |
| 13 | 108,240 | 143,616 | 35,376 | 33% |
| 14 | 62,376 | 81,372 | 18,996 | 30% |
| 15 | 62,376 | 81,288 | 18,912 | 30% |
| 16 | 64,872 | 84,288 | 19,416 | 30% |
| 17 | 33,138 | 42,960 | 9,822 | 30% |
| 18 | 64,872 | 75,552 | 10,680 | 16% |
| 19 | 66,276 | 75,720 | 9,444 | 14% |
| 20 | 116,832 | 131,256 | 14,424 | 12% |
| 21 | 64,872 | 72,048 | 7,176 | 11% |
| 22 | 88,788 | 96,036 | 7,248 | 8% |
| Total | $1,564,809 | $2,306,728 | $741,919 | 47% |

Source: University of Hawaii

***The program has been used as an incentive to phase out employment of unproductive faculty***

Another goal of the program was to increase productivity by retaining productive senior faculty and creating opportunities for newer faculty while reducing salary costs. However, administrators have used the program as an inducement to encourage unproductive employees to retire. Since tenure is based on employees' productivity in earlier phases of their careers, there is no guarantee that all tenured staff will retain the same levels of productivity as they approach retirement. Even with post-tenure review, staff with performance deficiencies have to be given time to remediate, which could be a drain on the school's finances.

Instead, IER has been offered as an opportunity for unproductive employees to transition into retirement instead of remaining in the system and possibly receiving sanctions for non-performance. Similarly, IER has been recommended to employees who are not producing the way they should—but not badly enough that there would be grounds to terminate them—as a way to have them replaced.

Alternatively, offering an IER term to unproductive employees has been viewed as a "bribe" that allowed an unproductive employee to "hold up" the university and tie up its resources unnecessarily. The pervasiveness of this practice and its impact on overall productivity is unknown, since the university has not performed any productivity evaluations under the incentive program. Nevertheless, while IER has been used to retain those who are truly productive but want to retire, using the program to retain unproductive employees contradicts the goal of increasing overall productivity.

### *Part-time work options already exist for university retirees*

Part-time work options include employment as lecturers or casual hires. Lecturers are typically hired on a temporary, part-time basis to fill a need where regular faculty members are not available and are appointed one semester at a time. Casual appointments are made for administrative, professional, technical (APT) or instructional positions at less than half-time (i.e., less than 0.5 full-time equivalent) for up to 12 months. Temporary employees are given assignments for 89 consecutive days or 37 consecutive weeks at less than 20 hours a week, in order to meet immediate operational needs. While not exclusive to retirees, these options are nevertheless open to those who want to retain some form of employment after they retire. In defending the continued use of the incentive program, several administrators said that without the program, fewer employees would retire because there are no other viable options. However, we found that retirees have been hired as lecturers and casual hires. In fact, the university encourages administrators to rehire IER employees as casual workers after they reach their three-year maximum IER term.

This rehiring practice was confirmed in our review of IER participants, some of whom were rehired as temporary employees after their IER terms expired. Lectureships have also become more appealing, since pay rates are based on the number of credits previously taught. Thus, even without IER, other part-time employment options remain viable alternatives.

The IER program could have some merit for researchers, who may want to retire but continue to serve as principal investigators on federally funded projects. Based on our review, the most common responsibilities held by IER participants were teaching (42 participants) and research (19 participants). Only four agreements mentioned that participants were working on externally-funded projects.

## Some IER participants are rehired as temporary employees

The intent of the IER program is to transition employees into retirement. As such, the university president in 1996 issued a directive that extensions beyond the three-year maximum would not be allowed, saying that such extensions are inconsistent with the program's purposes. This indicates that those participating in the IER program are expected to fully retire at the end of their third one-year term.

While condemning the extensions, the university president added that they indicate an ongoing need that might be better filled with temporary positions or lectureships. This has been interpreted to mean that IER participants can be hired in such capacities after their IER terms expire. In fact, a university personnel administrator said those requesting extensions for IER participants beyond the three-year maximum are advised to rehire the same employees as casual hires. This was confirmed by our review, which showed that five IER participants who reached their three-year maximum term were rehired as lecturer, casual and temporary employees. Their additional employment lasted between eight months (upon the retiree's death) and six years (see Exhibit 2.2).

**Exhibit 2.2**
**Participants Rehired After Expiry of IER Term**

| Employee | Hired as | Length of Part-Time Employment After IER Term |
|---|---|---|
| 1 | Temporary | 8 months |
| 2 | Casual | 1 year |
| 3 | Temporary | 2 years |
| 4 | Casual | 2 years |
| 5 | Lecturer | 6 years |

Source: University of Hawaii

If the intent of the program was to transition IER participants into full retirement, then rehiring them under these temporary positions does not facilitate their full retirement. Furthermore, since retirees can be hired as temporary employees without IER, the program appears unnecessary.

### Retired faculty are now eligible for the highest pay scale for lecturers

Retirees who decide to become lecturers are eligible for the highest pay scale for lecturers. The current collective bargaining agreement favors former faculty members who have taught classes for a number of years. As a result of the agreement, some lecturers are paid more per credit hour than full-time faculty. Despite this, some university officials have claimed that lecturers' salaries are insufficient to encourage faculty members to retire.

Lecturers are classified into Steps A, B, or C. University policies indicate that Step A requires a master's degree or equivalent. Step B also requires a master's degree, plus a minimum of 30 credits of college-level teaching experience. Step C requires a doctorate or appropriate terminal degree, or professional expertise, and 30 credits of college-level teaching of which at least 15 credits are upper division or graduate-level courses. Thus, most retired faculty who opt to teach after retirement would qualify as Step C lecturers.

In addition to higher pay, the current collective bargaining agreement states that although employers have the right to hire the best qualified applicant for a lectureship, where applicants have comparable qualifications first priority is to be given to lecturers on the "C" fee schedule. Thus, retirees who decide to return to work as lecturers are not only eligible for the highest pay scale but are also given priority in hiring.

Effective August 1, 2002, the rate per credit hour is $1,061 for Step A, $1,275 for Step B, and $1,490 for Step C. This means that Step C lecturers earn 40 percent more than those at Step A and 17 percent more than those at Step B. Exhibit 2.3 shows that based on full-time teaching loads at each college, Step C lecturers earn the per-credit equivalent of some full-time assistant professors.

**Exhibit 2.3**
**Pay Scale Comparisons**

| Campus (and full-time teaching load) | Lecturer vs. Assistant Professor | Cost Per Credit Hour | Full-Time Salary (credit-hours x pay per credit) |
|---|---|---|---|
| UH-Hilo (24 credits) | Lecturer (Step C) | $1,490 | $35,760 |
| | Assistant Professor, 9-month (Rank 3, Step 2) | $1,471 | $35,316 |
| Community Colleges (30 credits) | Lecturer (Step C) | $1,490 | $44,700 |
| | Assistant Professor, 9-month (Rank 3, Step 5) | $1,489 | $44,676 |

Source: University of Hawaii Professional Assembly 2001-2003 Collective Bargaining Agreement; Board of Regents Policies

Given that retired faculty members can also collect retirement benefits, lectureships could be a financially viable post-retirement part-time option, reducing the need for the incentive program. In fact, one administrator noted that the demand for IER agreements has diminished in her college for this reason.

## *Existing Social Security regulations have made IER a less attractive option*

Existing Social Security regulations have made the IER program a less attractive alternative to remaining employed full-time for those nearing retirement. These include (1) the ability to work at full retirement age without maximum income limits while receiving retirement benefits; and (2) for those age 62 to 64, the continuation of maximum income limits that would reduce monthly retirement benefits. However, university administrators insisted that IER is needed in order to encourage senior employees to retire by supplementing their retirement benefits with a part-time salary.

### Benefit without penalty age lowered from 70 to 65

Since the beginning of Social Security in 1935, retirement benefits have been awarded on the condition that the beneficiary be substantially retired. This requirement was imposed through provisions of the Retirement Earnings Test, which originally stated that "no person shall receive such old-age annuity unless . . .he is not employed by another in a gainful occupation." This has been scaled back over the years. By 1977, retirees age 70 and older were exempt from this provision, meaning that they could work and continue to receive full retirement benefits with no earnings limits. The Senior Citizens' Freedom to Work Act of 2000 repealed the Retirement Earnings Test, meaning that those who reach full retirement age can work without earnings limits and still receive full retirement benefits.

Thus, Social Security regulations now allow those of retirement age—65 for those born before 1938 and gradually increasing to 67 for those born in 1960 or later—to work without maximum earnings limits and still receive full retirement benefits. This development creates an environment in which, from the perspective of those who are undecided about retirement, the financial benefit of IER employment has become irrelevant.

For example, a department chair could offer a 64-year-old professor an IER agreement to encourage him to retire. However, if the professor is against retiring, he could argue that IER would reduce his income when, by waiting an additional year, he could instead earn a substantial raise by continuing to work full-time and also collecting retirement benefits. Because employees no longer have to retire in order to receive their retirement benefits, the incentive program has become less effective as a way to encourage employees to retire.

### Monthly retirement benefits are permanently reduced from age 62 to 65 if maximum income limits are exceeded

Those contemplating early retirement between ages 62 and 64 along with employment under IER also need to consider that benefits will be permanently reduced based on the number of monthly checks received before reaching full retirement age. For those whose full retirement age is 65, reduction for starting Social Security at age 62 is about 20 percent; for those whose full retirement age is 67, the reduction is 30 percent.

As of January 1, 2003, those aged 64 and under can earn $11,520 a year—$960 per month—or less without reducing their benefits. One personnel officer said that because IER requires retirees to be paid 40 percent of the prevailing rates for their jobs, their income would exceed the $11,520 limit. Indeed, in our review, all but one participant exceeded this limit. Depending on their income and expected monthly Social Security benefits, retirees could lose $1 in benefits for each $2 earned above annual income limits.

For example, a retiree receives Social Security benefits at age 62 and is entitled to $600 a month—$7,200 a year [see (a) below]. During the year, the retiree earns $20,000 from work (b) and thus exceeds the maximum income limit of $11,520 (c) by $8,480 (d). Social Security would then deduct $4,240—$1 per $2 over the limit (e), which means the retiree will receive $2,960 for the year (f). That is:

| | | |
|---|---|---|
| Social Security annual benefit earned at 62 | | $ 7,200 (a) |
| Income earned: | 20,000 (b) | |
| Maximum income limit: | -11,520 (c) | |
| Excess: | 8,480 (d) | |
| Social Security deductions: | | |
| ($1 per $2 over the limit) | - 4,240 (e) | - 4,240 (e) |
| Actual benefits received for the year: | | $ 2,960 (f) |

Thus, those who opted for early retirement between ages 62 and 64 and were hired for IER would most likely see reductions to their monthly retirement benefits.

This presents a disincentive for employees to take advantage of the IER program before they reach full retirement age. In contrast, if employees were hired after retirement as lecturers, they could teach up to six credits per year at a salary of $8,940 ($1,490 per credit; see Exhibit 2.3) without exceeding maximum income limits and still collect their entitled benefits (e.g. the entire $7,200 per year in the previous example) without incurring any penalties.

### *Median age and years of service have changed very little since the program started*

In 1982, the appraisal of the incentive program noted that the university's faculty reflected a mature age distribution rather than a balanced one, as recommended by the American Association of University Professors. The report noted that the adoption of an incentive early retirement program was one way to change the age structure of its employees. Thus, one of the program's goals was to create opportunities for younger or less experienced employees. However, our analysis of tenured faculty and APT employees between 1982 and 2001 showed that there have been no substantial changes in median age or median years of service for employees at the University of Hawaii.

As displayed in Exhibit 2.4, the median age for faculty was 49 years in 1982 and 47 in 2001. For APT employees, the median age was 40 in 1982 and 43 in 2001. The median number of years of service for faculty was 14 years in both 1982 and 2001; for APT, the median was 11 in 1982 and 13 in 2001. The lack of substantial decreases in either category indicates that IER has not had an impact on providing opportunities for younger or less experienced faculty.

**Exhibit 2.4**
**Comparison of Median Age and Years of Service**

| Employee Type | Category | 1982 | 2001 |
|---|---|---|---|
| Faculty | Median Age | 49 | 47 |
| | Median Years of Service | 14 | 14 |
| APT | Median Age | 40 | 43 |
| | Median Years of Service | 11 | 13 |

Sources: *Incentive Early Retirement Program: An Appraisal for the University of Hawaii*, September 1982; *Faculty and Staff Report,* February 2002

## The Program Is Poorly Managed, Leaving University Administration Unaware of Its Overall Impact

Management is a set of activities directed at an organization's human, financial, physical and information resources with the aim of achieving organizational goals in an efficient and effective manner. One of the functions of management is control, which includes setting standards, measuring actual performance, and taking corrective action. In the case of the incentive early retirement program, the university has allowed the program to continue without setting standards for individual performance or clear guidelines for implementation. The university also has not measured system-wide performance by collecting information on personnel cost savings, budget or position reallocations, or other areas that would reveal whether corrective action was necessary.

As a result, administrators have relied on their own subjective criteria for approving IER agreements, and have a range of opinions on what factors would constitute success for the program. One university official said an across-the-board evaluation would be difficult in a diverse institution with different management styles. However, the official also acknowledged a need for more accountability by centralizing, as well as creating coherence and consistency in the way the program is implemented. Thus, delegation to the colleges does not mean that the administration has no responsibility for the program's results.

### *Vague policies lead to wide-ranging, subjective criteria*

University policies require that all agreements be mutually agreeable as to terms and meet the test of being beneficial to the university. However, there are no other guidelines articulating the criteria for these two requirements. As a result, administrators follow their own subjective criteria.

In general, administrators said IER applications are judged on a case-by-case basis rather than general rules. However, administrators differed slightly in the factors they considered when approving IER agreements. Some said they approve IER applications based on what the individual's responsibilities will be and how much the agreement will cost. Another said she would only approve someone with specialized expertise or experience with an ongoing project requiring a high learning curve. In contrast, others said they would recommend IER if an employee begins to reach career or performance stagnation but still wants to be part of the university.

Due to this lack of specific criteria, our review showed that full-time equivalents were inconsistently applied to participants' responsibilities. For example, Exhibit 2.5 shows that one retiree was hired as an IER professor at the full-time equivalent of 20 percent and was required to teach 12 credits plus attend to some minor administrative duties. In contrast, another was also hired as an IER professor at 40 percent, but was given the broadly described responsibility of teaching three credits per year or its equivalent in either advising or research. The lack of defined responsibilities means that the benefits of hiring this employee were unclear.

### Exhibit 2.5
### IER Sample Job Descriptions

| | Faculty A | Faculty B |
|---|---|---|
| IER Full-time equivalent | 20 percent | 40 percent |
| Duties and responsibilities | • Teach four courses (12 credits)<br>• ***PLUS*** minor administrative duties | • Teach three credits per year (one course)<br>• ***OR*** an appropriate effort in advising students in master's or PhD research<br>• ***OR*** an appropriate report/research effort |

Source: University of Hawaii

When asked what factors should be considered when evaluating whether the IER program itself has been successful, administrators' responses varied once again. Some said that the program would be successful if there has been a good match between what the university needs and what the IER participant wants to do. One said that the program's success would be evident if the school was found to contain personnel with the necessary skills during accreditation. Another said that productivity studies would have to be performed to determine the program's impact. Such a study would measure productivity in terms of number of students, grant activity, advising, community service or other similar types of activities, in light of the costs incurred. Others said they would have difficulty determining whether the program has been successful, because there is no information on how many employees would not have retired without the program.

University officials have said that the lack of more specific guidelines is necessary to give deans and department heads the flexibility to make decisions relevant to their specific situations. However, some administrators expressed a need for more guidance.

For example, one administrator said that other institutions with similar programs have more explicit rules, and suggested that the University of Hawaii specify a requisite number of courses that an IER employee could teach. He said that 40 percent of full-time teaching loads do not easily translate into a specific number of courses. For instance, the full-time load at UH-Manoa is four courses per year, six at UH-Hilo and eight at the community colleges. At 40 percent, that would translate into 1.6 courses at UH-Manoa, 2.4 courses at UH-Hilo and 3.2 courses at the community colleges. He was unsure exactly how such fractions of courses could be implemented. In contrast, University of California's policies were more specific, stating that retirees may be appointed only at less than 1,000 hours per 12-month period.

One administrator was unsure whether a research employee could be paid by the university at 40 percent full-time equivalent yet be paid additional salary with funds from a grant. Although the university's executive policy states that IER participants have the same rights, privileges and obligations as other faculty and staff, he was unsure whether this meant that IER employees are to be treated the same as "regular" faculty, with the same offices or equipment. Another administrator was not sure whether the three-year maximum was a lifetime or consecutive year maximum, prohibiting the retiree from returning to the university to work after the IER term is completed. If the intent of the incentive program was to facilitate retirement, then a retiree cannot be rehired under the program after the employee has already retired.

Lack of clarity regarding what constitutes mutual benefit between the program participant and the university shows a need for more guidance among administrators. Thus, the university needs to supplement the mutual benefit requirement with more specific guidelines.

### *The university performs only rudimentary monitoring*

University officials have said that IER monitoring is delegated to authorities at the college level, which is consistent with deans' and department heads' management responsibilities. However, a 1985 report by the Board of Regents' Committee on Personnel Relations noted that delegation is only half of the equation. The committee also said that delegation should occur together with establishment of a monitoring system. The committee suggested that the board develop a system of evaluation standards that would enable the board to monitor the outcome of this delegation and to take corrective actions if necessary.

Furthermore, two of the early retirement programs researched during the 1982 appraisal also required extensive review for fiscal and academic program implications. In the University of California system, some of the factors considered include the campus academic plan, staff support requirements, and the regular and additional costs of each phased retirement. The early retirement program at Stanford University specified that it was subject to continuous review and evaluation as to its costs and institutional effects.

In contrast, after 20 years, the University of Hawaii's monitoring of its IER program has been limited to compliance with basic policies rather than measuring effectiveness or detecting problems. No information is compiled from IER applications to determine levels of usage, profiles of participants, or their levels of productivity. This type of superficial monitoring does not provide the university's administration with knowledge regarding the effectiveness of the program, nor any data to justify its continued existence.

### Applications are checked only for adherence to one-year terms

The director of the Office of Human Resources said that her basic concern when reviewing applications is whether the terms comply with the one-year-at-a-time rule. She does not monitor any other areas because no complaints have arisen.

Limiting IER terms to one year at a time was a significant issue in 1995, when the university president then noted that the Board of Regents' policy authorizing the president to approve IER agreements for periods of up to three years was in conflict with another policy giving the president authority to approve all Board of Regents' personnel appointments for one year or less. However, this issue was addressed later that same year when the policy was revised by limiting IER appointments to one year at a time. The administration's fixation on compliance with a single policy revision that took place eight years ago has prevented it from identifying, measuring, and evaluating critical factors that would determine the success of the program as a whole.

The administration's limited review is inconsistent with the recommendations of the Board of Regents in 1985, which supported establishment of a monitoring system. The university has not effectively used its approval process as an opportunity to collect information that would reveal whether the program has been effective in meeting its goals.

### IER participants are reviewed only sporadically

In its 1985 report, the Board of Regents exploratory committee recommended that monitoring be built into the program. However, university officials admit that the program is low on its priority list. As a result, the list of IER participants is reviewed only sporadically. The vice president for administration said that monitoring basically consists of whether or not the agreements are approved. In addition, the director of the Office of Human Resources said that because the program is low on her priority list, the list of IER participants is not regularly checked for anomalies.

However, this sporadic review process would not alert the university regarding productivity or any incidences of program abuse, either from discrimination or favoritism. One university official acknowledged that IER participants are "presumed" to be productive, as determined by the deans. Thus, even though approval for IER agreements moves up the chain to chancellors and ultimately the president's office, deans and department heads effectively have final say. Indeed, administrators said that virtually none of their requests had been turned down by the administration.

### *Post-IER term evaluations are not performed*

Control entails monitoring progress toward the attainment of particular goals. The control function includes setting standards, measuring actual performance, and taking corrective action. As stated previously, the lack of criteria has resulted in a lack of standards and performance measures to determine the program's success. Areas critical to any program include cost and the quality of work performed. Instead, the IER program contains no provisions for ensuring that agreements result in satisfactory outcomes, nor does it include any provisions for taking corrective action if necessary. The lack of measurable outcomes has resulted in the perception among employees that IER is an entitlement based on past work, rather than the mutually beneficial arrangement required by executive policies.

#### System-wide cost data does not exist

Any savings from the IER program are documented by departments on a year-to-year basis, but the university does not collect this information. Thus, the administration lacks any quantifiable data to support the continuation of IER. Although final approval rests with the Office of the President, no one at that level can justify the program's cost and benefit to the university and to the State.

One university official said that retaining specific cost information at the department level is consistent with the responsibilities of executive-level personnel such as deans and department heads. The official said that for the administration to require more would interfere with the colleges' ability to provide academic services. However, delegation does not necessarily mean performance should not be monitored. Since IER approvals already proceed through a chain of command, it is incumbent upon administrators at each level to be informed of how resources are being distributed by their operating units.

#### Sanctions do not exist for unsatisfactory work performed by IER participants

Another opportunity to assess the effectiveness of the program arises at the end of IER terms. Performance results could then be compared with provisions of each Memorandum of Agreement. However, administrators said that no post-IER reviews are conducted. The IER program guarantees part-time employment for retirees, but does not ensure that the university will receive satisfactory results from the arrangement.

One administrator said that the problem is akin to giving faculty members assigned time, or reducing required teaching loads by a certain number of credit hours or work-hours, in order to complete a particular project. Examples of assigned time projects include new program development, major curriculum revision, or providing expert technical assistance to agencies that serve the public and benefit the college.

He said the challenge is in not having a way to measure the output, or the results of the projects, based on the number of hours staff are given. In the event their work is unsatisfactory, filing grievances or arbitration consumes inordinate amounts of staff time and resources. He said that in many assigned time projects, results are sometimes not up to par because employees see the assignment itself as their reward for previous work. As a result, there are no guarantees of specific outcomes.

The same could be said about IER participants. One personnel officer said that some employees see their IER appointments as entitlements rather than an arrangement that requires yearly justification by the department chair. For IER participants, creating specific standards for the work to be completed could be viewed by the faculty union as discrimination, since other employees would not be held to the same standards. Once they receive approval, IER participants are employed for the duration of the agreement unless termination is mutually agreed upon. Like assigned time, IER participation may be seen as a reward for past work, with little concern for the outcomes produced.

## Conclusion

The Incentive Early Retirement program has operated for 20 years with insufficient data about its impact on the university. This little known perk, which is not available to other state employees, continues without any meaningful assessment as to the ongoing need for the program. Due to its lack of accountability, administrators have used the program to retain unproductive employees and participants have viewed the program as an entitlement, or a reward for past work.

We found that when the program has been used, the cost of replacing retired employees has generally exceeded the salaries of their predecessors. In the meantime, changes in Social Security laws have reduced the financial benefits, and therefore the incentive, of the program for employees. As a result, our audit showed that the program has been unsuccessful in reducing salary costs and providing more opportunities to junior faculty. Should this program be allowed to continue, the university’s departments, colleges and administration all need to be held to a higher level of accountability.

## Recommendations

1. The Board of Regents should assess the merits of the Incentive Early Retirement Program and consider eliminating the program.

2. If the Board decides to keep the program, it should require closer review of the program, including:

    a. Determining what types of information are significant to the success of IER, and requiring that all applications include such information (e.g., anticipated cost savings from IER);

    b. Considering implementing post-IER evaluations to determine whether the outcomes of the program justify its continuation; and

    c. Monitoring overall costs and assessing whether IER has been effective in meeting its human resource needs.

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# Response of the Affected Agency

## Comments on Agency Response

We transmitted a draft of this report to the University of Hawaii on April 25, 2003. A copy of the transmittal letter to the university is included as Attachment 1. The university's response is included as Attachment 2.

In its response, the university did not comment directly on any of our findings. However, it did respond that it has already initiated action to address the concerns noted in our report and will review the viability and merits of continuing the program. Finally, the university thanked us for our work and noted that it will seek to make positive use of our report.

ATTACHMENT 1

STATE OF HAWAII
**OFFICE OF THE AUDITOR**
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

**MARION M. HIGA**
State Auditor

(808) 587-0800
FAX: (808) 587-0830

April 25, 2003

***COPY***

The Honorable Evan S. Dobelle, President
University of Hawaii
Bachman Hall
2444 Dole Street
Honolulu, Hawaii 96813

Dear President Dobelle:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Management Audit of the University of Hawaii Incentive Early Retirement Program (IER).* We ask that you telephone us by Tuesday, April 29, 2003, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, May 2, 2003.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa

Marion M. Higa
State Auditor

Enclosures

UNIVERSITY OF HAWAI'I

EVAN S. DOBELLE
PRESIDENT

May 1, 2003

RECEIVED
MAY 2 4 07 PM '03
OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion Higa
State Legislative Auditor
465 South King Street, Room 500
Honolulu, Hawai'i 96813

Dear Ms. Higa:

We are in receipt of the report of the Legislative Auditor's report on the University of Hawai'i's Incentive Early Retirement (IER) program that dates back to 1995.

The University has already initiated action to address some of the concerns identified in the Auditor's report and has committed itself to embark on a review process to determine the viability and merits of continuing the program.

We thank the Legislative Auditor's Office for its work and seek to make positive use of this report in the manner indicated.

My very best wishes.

Sincerely,

Evan S. Dobelle
President, University of Hawai'i

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